

Message Text

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ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 EA-07 NEA-10 ISO-00 ARAE-00 SSO-00

NSCE-00 USIE-00 INRE-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 SAM-01

OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01 /120 W

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O R 211814Z OCT 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 606

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

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EO 11652: NA

TAGS: ENRG VE

SUBJ: MINES MINISTRY ANNOUNCES NEW OIL PRICES WILL BE
PUBLISHED SOON; PETROVEN WILL SELL 120,000 B/D ON CIF TERMS

REF: CARACAS 10372

1. MINES MINISTER VALENTIN HERNANDEZ TOLD THE PRESS OCTOBER 15
THAT THE GOV WOULD PUBLISH ITS NEW OIL PRICES BY THE END OF
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LAST WEEK. HE EXPLAINED THAT PUBLICATION OF THE NEW PRICES HAD

BEEN DELAYED BY THE COMPLEXITY OF THE WORK INVOLVED. HE ADDED THAT MUCH CARE WAS BEING TAKEN BY THE GOV IN FIXING THE PRICES, ESPECIALLY FOR REFINERY PRODUCTS, ON ORDER NOT TO CREATE MARKETING PROBLEMS FOR PETROVEN WHEN IT BEGINS TO MANAGE THE VENEZUELAN OIL INDUSTRY AFTER JANUARY 1, 1976.

2. HERNANDEZ ANNOUNCED AT THE SAME TIME THAT PETROVEN WOULD SELL 120,000 B/D ON CIF TERMS, AND 1,850,000 B/D WOULD CONTINUE TO BE SOLD UNDER TRADITIONAL FOB TERMS. (THE ADDITIONAL 230,000 B/D OF PLANNED 1976 PRODUCTION WOULD BE FOR DOMESTIC CONSUMPTION.) HE ADDED THAT IT HAD NOT BEEN PROVEN THAT SALES UNDER CIF TERMS ARE BETTER, AND THIS INITIAL ATTEMPT WOULD BE MODIFIED IF EXPERIENCE INDICATED IT IS NOT MORE BENEFICIAL TO VENEZUELA.

3. COMMENT: THE NEW PRICES WERE NOT PUBLISHED ON THE SCHEDULE THE MINISTER ANNOUNCED. THE MOST DIFFICULT PRICE DECISIONS CONCERN REFINERY PRODUCTS, WHICH ACCOUNT FOR POTENTIALLY ONE-HALF OF VENEZUELAN OIL EXPORTS. THE MARKET FOR LOW SULFUR RESIDUAL FUEL OIL, IN PARTICULAR HAS BEEN DEPRESSED. THE CREOLE AMUAY REFINERY CONTINUES TO OPERATE AT ABOUT ONE-HALF CAPACITY, AND ITS DESULFURIZATION UNITS ARE ALMOST COMPLETELY CLOSED DOWN. SINCE REFINERY PRODUCTS HAVE NO OPEC REFERENCE PRICES, THE GOV DOES NOT WANT TO SET PRICES, AS IT DID IN JANUARY 1975, WHICH WILL NOT BE COMPETITIVE AND WHICH IT WILL BE OBLIGATED TO MAINTAIN UNTIL JUNE 1976. HYDROCARBONS DIRECTOR AREVALO REYES WAS QUOTED IN THE PRESS OCTOBER 21 AS SAYING THAT "SOME PRICES WILL GO UP AND SOME WILL GO DOWN", HE REPORT-EDLY INDICATED THAT THE INCREASE WILL BE LESS THAN ONE DOLLAR PER BARREL OVERALL, AND SAID THE PRICES WILL BE GAZETTED TODAY. (PRESUMABLY AFTER APPROVAL BY THE PRESIDENT AND MINISTERS AT THE WEEKLY CABINET MEETING THIS MORNING.)

4. GOV OPEC GOVERNOR AND CHIEF OF PETROLEUM ECONOMICS, ALBERTO FLORES, TOLD THE PETROLEUM ATTACHE OCTOBER 17 THAT THE CIF SALE THE MINISTER REFERRED TO IS BEING NEGOTIATED WITH ASIATIC PETROLEUM CORPORATION. THIS IS THE ROYAL DUTCH SHELL AFFILIATE, WHICH HAS HERETOFORE BOUGHT VENEZUELAN OIL THROUGH ITS OWN AFFILIATE HERE FOR CUSTOMERS LIMITED OFFICIAL USE

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ON THE U.S. EAST COAST. THE CONTRACT IS BEING NEGOTIATED FOR TWO YEARS, WITH OPTIONS FOR REVIEW AT VARIOUS INTERVALS THROUGHOUT THE LIFE OF THE CONTRACT. FLORES SAID THAT THE GOV'S RELUCTANCE TO COMMIT OIL TO CIF TERMS IS DUE TO THE FACT THAT THE RETURN TO GOV IS USUALLY LESS THAN CAN BE OBTAINED UNDER FOB. THERE IS AN ONGOING DEBATE WITHIN THE GOV OVVER THIS QUESTION, HE ADDED, AND THE CONTRACT WILL BE CAREFULLY MONITORED. CIF TERMS

THEORETICALLY GETS PETROVEN INTO DOWNSTREAM MARKETING,
BUT THE IMPORTANT QUESTION IS AT WHAT COST IN TERMS OF LOST
REVENUE. END COMMENT.
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Disposition Approved on Date:
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Margaret P. Grafeld
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